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THE  
BRAEMORE  
GROUP



# Financial Highlights

Year Ended	December 31, 1977	December 25, 1976
Continuing Operations		
Sales .....	<u>\$41,921,000</u>	<u>\$44,821,000</u>
Net earnings .....	<u>\$ 616,000</u>	<u>\$ 461,000</u>
Earnings per share .....	<u>39¢</u>	<u>29¢</u>
Working capital .....	\$ 4,978,000	\$ 4,939,000
Shareholders' equity .....	\$ 9,000,000	\$ 9,807,000
Shares outstanding .....	1,565,800	1,565,800



# To our Shareholders

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Earnings from continuing operations increased to \$616,000 or 39 cents per share in 1977 from \$461,000 or 29 cents per share in 1976, largely because of improved operating efficiencies.

Your Company's sales from continuing operations showed a moderate decline in 1977 to \$41,921,000 compared with \$44,821,000 in 1976 as a result of the generally sluggish demand for home furnishings which became apparent late in 1976 and continued throughout most of 1977.

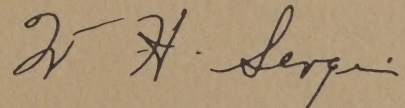
The Emanuel Products Limited plant was closed down at the end of 1977. The Canadian market for television and stereo cabinets, the principal products of this plant, had been sharply curtailed over the past several years by the effect of import competition on the domestic manufacture of television and stereo sets. Sales and earnings figures for both years exclude the results of Emanuel Products Limited. Emanuel results for 1977 consisted of sales of \$3.3 million, loss on operations of \$118,000, shutdown costs of \$188,000 and a write-off of goodwill of \$1,117,000.

## Outlook

Business for 1978 to date has been significantly better than in the comparable period in 1977 and there are grounds for optimism that this improvement will continue. Although the economy is still basically flat, the reduction or removal of the provincial sales tax on home furnishings should have a positive impact on this year's results.

## Appreciation

On behalf of the Board of Directors, I would like to thank all of the employees of the Braemore Group for their dedication during the past year.



Chairman and  
Chief Executive Officer

Toronto  
April 26, 1978



# Consolidated Statement of Earnings

For the year ended December 31, 1977

	1977 (\$,000)	1976 (\$,000)
SALES .....	\$41,921	\$44,821
EXPENSES		
Cost of sales and expenses .....	39,661	42,345
Depreciation and amortization .....	379	331
Interest on long-term debt .....	237	244
Interest on current debt .....	758	1,077
	41,035	43,997
EARNINGS FROM CONTINUING OPERATIONS BEFORE INCOME TAXES .....	886	824
Income taxes (note 1d) .....	255	312
	631	512
Minority interest in subsidiaries' earnings .....	15	51
NET EARNINGS FROM CONTINUING OPERATIONS .....	616	461
DISCONTINUED OPERATIONS (note 2) (including a write-off of goodwill of \$1,117,000) .....	( 1,423)	136
NET EARNINGS (LOSS) .....	(\$ 807)	\$ 597
EARNINGS PER SHARE (notes 2 and 6)		
Continuing operations .....	\$ 0.39	\$ 0.29
Discontinued operations .....	( 0.08)	0.09
EARNINGS PER SHARE FROM OPERATIONS .....	0.31	0.38
LOSS ON SHUTDOWN AND WRITE-OFF OF GOODWILL .....	( 0.83)	—
NET EARNINGS (LOSS) PER SHARE .....	(\$ 0.52)	0.38

# Consolidated Statement of Retained Earnings

For the year ended December 31, 1977

	1977 (\$,000)	1976 (\$,000)
Net Earnings (Loss)		
From continuing operations .....	\$ 616	\$ 461
From discontinued operations .....	( 1,423)	136
	( 807)	597
Balance, beginning of year .....	3,315	2,718
Balance, end of year .....	\$ 2,508	\$ 3,315

*The accompanying notes form an integral part of the financial statements.*



# Consolidated Statement of Changes in Financial Position

For the year ended December 31, 1977

	1977 (\$,000)	1976 (\$,000)
<b>WORKING CAPITAL PROVIDED BY</b>		
Net earnings from continuing operations . . . . .	\$ 616	\$ 461
Net earnings (loss) from discontinued operations (note 2) . . . . .	( 118)	136
Cost of plant shutdown (note 2) . . . . .	( 188)	—
Depreciation and amortization . . . . .	480	441
Deferred income taxes . . . . .	( 207)	182
Deferred charges . . . . .	16	17
Minority interest in net earnings . . . . .	15	51
Funds from operations . . . . .	614	1,288
Increase in long-term debt . . . . .	431	196
	<u>1,045</u>	<u>1,484</u>
<b>WORKING CAPITAL USED FOR</b>		
Purchase of fixed assets (net) . . . . .	752	738
Decrease in long-term debt . . . . .	231	219
Deferred charges . . . . .	23	—
	<u>1,006</u>	<u>957</u>
INCREASE IN WORKING CAPITAL . . . . .	39	527
WORKING CAPITAL, BEGINNING OF YEAR . . . . .	4,939	4,412
WORKING CAPITAL, END OF YEAR . . . . .	<u>\$ 4,978</u>	<u>\$ 4,939</u>



# Consolidated Balance Sheet

As at December 31, 1977

ASSETS	1977 (\$,000)	1976 (\$,000)
<b>CURRENT</b>		
Accounts receivable . . . . .	\$10,816	\$10,331
Income taxes refundable . . . . .	73	—
Inventories (note 1b) . . . . .	9,697	10,833
Prepaid expenses . . . . .	328	233
	<u>20,914</u>	<u>21,397</u>
<b>FIXED</b>		
Land . . . . .	222	224
Buildings . . . . .	1,631	1,606
Equipment and leasehold improvements . . . . .	7,398	6,716
Total, at cost . . . . .	<u>9,251</u>	<u>8,546</u>
Accumulated depreciation (note 1c) . . . . .	5,154	4,722
	<u>4,097</u>	<u>3,824</u>
<b>OTHER</b>		
Deferred charges . . . . .	23	16
Deferred income taxes (note 1d) . . . . .	316	109
Goodwill (note 1e) . . . . .	<u>2,223</u>	<u>3,341</u>
	<u>2,562</u>	<u>3,466</u>
	<u>\$27,573</u>	<u>\$28,687</u>

## Auditors' Report

To the shareholders,  
House of Braemore Furniture Limited.

We have examined the consolidated balance sheet of House of Braemore Furniture Limited as at December 31, 1977, and the consolidated statements of earnings, retained earnings and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the Company as at December 31, 1977, and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Toronto, Canada,  
March 10, 1978

WM. EISENBERG & CO.  
Chartered Accountants



LIABILITIES	1977 (\$,000)	1976 (\$,000)
CURRENT		
Bank indebtedness (note 3) . . . . .	\$ 2,434	\$ 4,598
Bankers' acceptances (note 3) . . . . .	6,000	6,000
Accounts payable and accrued charges . . . . .	7,311	5,114
Income taxes payable . . . . .	—	212
Due to parent — Strathearn House Group Limited . . . . .	17	341
Current portion of long-term debt (note 4) . . . . .	174	193
	<u>15,936</u>	<u>16,458</u>
LONG-TERM DEBT (note 4)		
Secured . . . . .	529	329
Unsecured . . . . .	1,729	1,729
	<u>2,258</u>	<u>2,058</u>
MINORITY INTEREST . . . . .	<u>379</u>	<u>364</u>
SHAREHOLDERS' EQUITY		
SHARE CAPITAL		
Authorized		
3,000,000 Common shares without par value		
Issued (note 5)		
1,565,800 Common shares . . . . .	6,492	6,492
RETAINED EARNINGS . . . . .	<u>2,508</u>	<u>3,315</u>
	<u>9,000</u>	<u>9,807</u>
	<u>\$27,573</u>	<u>\$28,687</u>

*On behalf of the board*

W. H. Singer, Director

W. Posluns, Director

*The accompanying notes form an integral part of the financial statements.*



# Notes to Consolidated Financial Statements

As at December 31, 1977

## 1. Accounting Policies

### a. Basis of consolidation

The consolidated financial statements include the accounts of the following subsidiaries:

#### Wholly-owned

The Hespeler Furniture Company Limited  
(including its division, American Frame)  
Singer Lighting Co. Ltd.  
Troister & Company Limited  
Emanuel Products Limited (note 2)  
Roti Wood Products (Fergus) Limited  
COSF Products Limited  
(including its division, Standard Upholstery Company)  
Willison Wood Products Company Limited

#### Partially-owned

Thompson-Heyland Limited (60% owned – note 11)  
Braemore Convertibles Limited (51% owned)

All significant inter-company loans and transactions have been eliminated on consolidation. For comparative purposes prior year's amounts are restated to conform with current year presentation.

### b. Inventories

Inventories are valued at the lower of cost (first-in, first-out basis) and net realizable value, and consist of:

	1977 (\$,000)	1976 (\$,000)
Raw materials . . . . .	\$ 6,432	\$ 5,726
Work-in-progress . . . . .	828	1,281
Finished goods . . . . .	2,437	3,826
	<u>\$ 9,697</u>	<u>\$10,833</u>

### c. Depreciation

Depreciation is provided on a straight-line basis at rates which are designed to write off the assets over their estimated useful lives as follows:

Buildings . . . . .	— 2½%
Equipment and leasehold improvements . . . . .	— 10% - 33⅓%
Automotive . . . . .	— 25%

### d. Deferred income taxes

	1977 (\$,000)	1976 (\$,000)
i. Income taxes provided in respect of timing differences between accounting and taxable income . . . . .	\$ 239	\$ 232
ii. Income tax reductions which are expected to be realized in future years by carrying forward losses of subsidiaries. In the view of management, these reductions are virtually certain to be realized . . . . .	( 555)	( 341)
	<u>(\$ 316)</u>	<u>(\$ 109)</u>

Inventory allowances are permanent differences and result in a reduced effective tax rate commencing with 1977.



1. e. Goodwill

Goodwill represents the excess of the cost of subsidiaries over their net tangible assets at the date of acquisition. Goodwill acquired subsequent to April 1, 1974 is being amortized on a straight-line basis over 40 years (\$675 per annum). Goodwill acquired prior to 1974 is not being amortized.

2. Discontinued Operations

During the year the operations of Emanuel Products Limited were discontinued. The effect on the financial statements of this shutdown is summarized as follows:

	1977 (\$,000)	1976 (\$,000)
Earnings (Loss) from discontinued operations before income taxes . . . . .	( 221)	234
Income taxes . . . . .	( 103)	98
Earnings (Loss) from discontinued operations . . . . .	( 118)	136
Loss on shutdown:		
Shutdown costs . . . . .	\$ 325	
Less income taxes recovered . . . . .	137	
	188	
Write-off of goodwill . . . . .	1,117	—
Net earnings (loss) from discontinued operations . . . . .	(\$ 1,423)	\$ 136

3. Bank Indebtedness

The bank indebtedness and bankers' acceptances are secured by a pledge of book debts and inventories.

4. Long-term Debt

	1977 (\$,000)	1976 (\$,000)
Secured		
Term bank loan, prime plus 1¼% repayable \$50,000 per annum . . . . .	\$ 250	\$ —
10.7% Federal Business Development Bank Loan due April, 1979, secured by mortgages . . . . .	48	84
10% mortgage payable, due October, 1982 . . . . .	12	13
Promissory notes		
Non-interest bearing, due December 31, 1976 . . . . .	—	83
Finance Company notes, secured by chattel mortgages . . . . .	361	279
Other . . . . .	32	63
	703	522
Due within one year . . . . .	174	193
	529	329
Unsecured		
Promissory notes		
8½% due August, 1981 . . . . .	229	229
Prime plus 1%, due April, 1979 (note 5)		
— Directors and officers . . . . .	1,225	1,225
— Other . . . . .	275	275
	1,729	1,729
	\$ 2,258	\$ 2,058



## Notes to Consolidated Financial Statements

As at December 31, 1977

### 5. Share Capital

Subscription warrants attached to the promissory notes due April, 1979 aggregating \$1,500,000 (note 4) are outstanding and entitle the holders to subscribe for a total of 75,000 common shares from treasury at \$5.00 per share. These warrants may be exercised at any time prior to the maturity date of the notes and expire on that date.

### 6. Earnings Per Share

The dilutive effect on earnings per common share of giving effect to the exercise of the warrants attached to the promissory notes (note 5) and of imputing interest at a rate equivalent to that payable on the notes, would be less than one cent per common share with respect to earnings from continuing operations and would decrease the loss per share to \$0.48 with respect to the net loss for the year.

### 7. Lease Commitments

Rentals paid on property leases for the year ended December 31, 1977 amounted to \$658,000. Aggregate minimum rentals in subsequent years on long term property leases are as follows:

	(\$,000)
Year ended December 30, 1978 . . . . .	\$ 662
The next four years . . . . .	1,347
1983 to 1997 . . . . .	1,328
	<u>\$ 3,337</u>

### 8. Remuneration of Directors and Senior Officers

The aggregate direct remuneration paid or payable by the Company and its subsidiaries to the directors and senior officers of the Company during the current year amounted to \$727,000 (1976 — \$670,000).

### 9. Pension Benefits

The Company is obligated under an agreement with a retired director and senior officer for the payment of \$35,000 per annum to 1983. This amount will be charged to annual earnings over the term of the agreement.

### 10. Anti-inflation Legislation

The Companies are subject to restraint of profit margins, prices, dividends and compensation under the terms of the Anti-Inflation Act and Regulations.

### 11. Subsequent Event

Effective January 1978 the company acquired the remaining 40% minority interest in the common shares of Thompson-Heyland Limited for a sum of \$20,000. The shares acquired have a book value of \$196,000.



## Directors

M. FAITH  
Vice-President, Emanuel Products

E. FINE  
Vice-President, Braemore Furniture

S. GOSSIN  
Vice-President, Emanuel Products

M. HANDELMAN  
Vice-Chairman of House of Braemore  
Furniture Limited

J. F. KAY  
Chairman of the Board of Dylex Limited

I. A. POSLUNS  
Executive Vice-President of Dylex Limited

J. I. POSLUNS  
Executive Vice-President and  
Treasurer of Dylex Limited

\*W. POSLUNS  
President of Dylex Limited

\*S. M. SIGEL  
Partner, Messrs. Stitt, Baker & McKenzie,  
Solicitors

W. H. SINGER  
Chairman and Chief Executive Officer of  
House of Braemore Furniture Limited  
President and Chief Executive Officer of  
Strathearn House Group Limited

P. TANE  
Vice-President, Standard Upholstery

H. VOGEL  
Vice-President, Braemore Furniture

H. K. WEINER  
President of House of Braemore Furniture  
Limited

\*A. H. ZALDIN, Q.C.  
Senior Partner, Messrs. Zaldin, Fine and Siskind,  
Solicitors

*\* Member of the audit committee*

## Officers

W. H. SINGER  
Chairman of the Board and Chief Executive Officer

M. HANDELMAN  
Vice-Chairman of the Board

H. K. WEINER  
President

W. POSLUNS  
Secretary and Treasurer

M. FAITH  
Vice-President

E. FINE  
Vice-President

S. GOSSIN  
Vice-President

J. F. KAY  
Vice-President

H. NUDEL  
Vice-President

I. A. POSLUNS  
Vice-President

J. I. POSLUNS  
Vice-President

P. TANE  
Vice-President

H. VOGEL  
Vice-President

TRANSFER AGENT AND REGISTRAR  
CROWN TRUST COMPANY

AUDITORS  
Wm. EISENBERG & CO., Chartered Accountants

BANKERS  
BANK OF MONTREAL

LISTED ON  
TORONTO STOCK EXCHANGE

EXECUTIVE OFFICES  
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